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FOREIGN TRADE

Questions

III. WHAT WOULD BE THE EFFECT OF A TOTAL EMBARGO OF NON-COMMUNIST TRADE WITH COMMUNIST CHINA ON THE CHINESE COMMUNIST ECONOMIC AND POLITICAL STRENGTH, AND ITS MILITARY CAPABILITIES?

A. What would be the effects of a complete economic embargo on Communist China's trade pattern over the next year?

IV. WHAT WOULD BE THE EFFECTS OF A NAVAL BLOCKAGE INCLUDING PORT ARTHUR AND DAIREN ON COMMUNIST CHINA'S ECONOMIC AND POLITICAL STRENGTH AND ITS MILITARY CAPABILITIES?

A. Assuming that a naval blockade would cut off substantially all of Communist China's sea-borne imports, to what extent could the loss of these imports be made up by additional overland imports from the Soviet Bloc?

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III.A. & IV.A.

The Soviet Bloc has replaced the West as the major supplier of industrial products to Communist China. China depends on its exports to the West for exchange with which to pay for imports from the West and to help to balance its accounts with Soviet Bloc countries from whom it receives at least 70% of its imports, largely in the form of goods required for industrialization. China receives, at a substantial deficit with the Bloc, goods falling largely into the following categories: (1) machinery for the exploitation of mineral resources, (2) commodities contributing to war-essential industries, (3) agricultural implements to increase output, (4) transportation and communications equipment, (5) petroleum products, and (6) war material. In partial payment, China exports to the Bloc raw materials such as minerals, foodstuffs (especially soybeans), bristles, vegetable oils, wool, and short-staple cotton. The deficit has been covered by a \$300 million loan from the Soviet Union, by gold and silver exports, remittances from overseas, recovered hoardings, and exchange earned by exports to the West. It is possible that other Bloc countries have also made loans to China.

China imports from non-Bloc countries raw materials such as long-staple cotton, rubber, iron and steel, some of which may be re-exported to the Soviet Union. It also receives fertilizer, industrial chemicals, pharmaceuticals, paper, gunny bags, and other items, but the total imports from non-Bloc countries do not exceed \$300 - 400 million in value and are mostly bulk items more suitable for transportation by ship than by rail in normal circumstances.

The foreign exchange holdings of Communist China appear to be nearly exhausted at the present time. Recovered hoardings are a rapidly diminishing source and overseas remittances have been decreasing for some time. If the trend is continued Communist China will probably receive about \$25 to \$50 million from overseas remittances during 1953.

Some goods exported by China to the Bloc are re-exported to the West. There is therefore no accurate measure of the total Chinese trade with the West, but it appears that the goods purchased from the West directly and by the Bloc for China do not fully offset Chinese goods sold to the West by China and the Bloc. Consequently, China probably has a favorable balance of trade with the West. An embargo or blockade which cut off overseas exports would therefore probably cut off a source of net gain to China's foreign exchange holdings. The Bloc could probably supply

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overland the essential import requirements cut off by a blockade or embargo, but China's ability to export enough overland to the Bloc to counter-balance the increased deficit is doubtful. It would probably be necessary for the Bloc to cover their increased exports to China by increased loans pending an increase in China's production and ability to export. The net effect of an embargo or blockade would therefore be initially to place Communist China deeper in debt to the Soviet Bloc.

The pattern of Chinese trade described above indicates that under current controls, China's exports to the West are generally much more important than are imports from the West. This is substantiated to some degree by current prices paid for ship charters for voyages to and from China. In early February 1953, charters for voyages from China were bringing 95 shillings per dead weight ton per month in London, but charters for voyages to China were receiving only 70-75 shillings.

There follows a list of recently concluded trade agreements between China and various Bloc countries. Observed industrial and construction activity in China confirms the receipt of the types of goods mentioned in the respective trade agreements.

1. Sino - Soviet Union Trade Agreement:

Exports: US dollars, tea, and raw materials.

Imports: An electric-power generation plant, machinery for engineering and finishing factories, mining machinery, railway material, especially rails.

2. Sino - Rumanian Trade Agreement:

Exports: Colored metals, chemicals, oils, fats, tea, etc.

Imports: Industrial equipment, products of the electrical industry, oil products, chemicals.

3. Sino - Bulgarian Trade Agreement:

Exports: Non-ferrous metals, cotton, silk, silk fabrics, tea, livestock products.

Imports: Electrical machinery, fertilizers, chemicals.

4. Sino - Czechoslovakian Trade Agreement:

Exports: Resin, silk, hemp, lead, oilseeds, goatskins, wolfram, mica, mercury, tin, leather, asbestos, hog bristles, egg products.

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Imports: Steel and engineering products, locomotives, trucks, rubber, chemicals, pharmaceuticals, textiles, paper products.

5. Sino - East German Trade Agreement:

Exports: Raw materials, foodstuffs, earths, minerals.

Imports: Machinery, electrical and precision instruments, optical materials, chemicals, and metals.

6. Sino - Hungarian Trade Agreement:

Exports: Raw materials

Imports: Industrial raw materials and mechanical equipment (machine tools, radio equipment, chemical products).

7. Sino - Polish Trade Agreement:

Exports: Soya, tobacco, wolfram, fats, ores, asbestos, graphite, corn, hides, tea.

Imports: Textiles, rolled and general metal products (rails, steel bars, sheet-metal, zinc sheets), workshop equipment and chemicals, railway rolling stock, paper, medicine.

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